TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: Update on State Legislation ITEM NUMBER:7a

ATTACHMENT(S): 14

ACTION: X MEETING DATE: April 2, 1998

INFORMATION: _____ PRESENTER: Ms. DuCray-Morrill

Summary

As you know, the Board was presented with the 6/30/97 valuation of the Defined Benefit (DB) plan at its March 5, 1998 meeting. The Consulting Actuary concluded in their report that the Teachers' Retirement Fund (TRF) was 97.3 percent funded with only a three year amortization period remaining. As a result of this extraordinary gain in the System's funded status, staff recommends the Board conduct a comprehensive review of the benefits package provided by the State Teachers' Retirement System (STRS) in consideration of potential benefit increases.

Staff has been working on a number of studies anticipation of a review of the benefits provided by the DB plan. Most notably, the Retirement Plan Study which was presented to the Board at its November, 1997 meeting; an update of the impact of mandatory Social Security to STRS and its members (in progress); and the Optional Supplemental Benefits Study scheduled for the April, 1998 Benefits and In addition, the Board has Services Committee meeting. asked for a presentation of a benefit design feature that has had increased popularity in recent years - Deferred Retirement Option Plans (DROP). As the Board prepares to consider its position on legislation for the 1998 Regular Session of the Legislature, staff would like to provide the Board with some initial and updated information to the studies outlined and the DROP.

Staff has prepared a package of the information identified above and some of the legislation which has been introduced in the Legislature for this agenda. However, since not all legislation has been fully analyzed, staff recommends the Board defer action on specified legislation presented in this package until the May meeting when it is anticipated that all benefits-related legislation will be fully analyzed and funding options identified.

A. Matrices: Strategy, Data, Background, Comparison

To assist the Board in considering proposed legislation, staff has prepared a number of reference documents that provide strategy options, detailed data and background information. Specifically, staff has prepared a:

- 1. Strategy for Adopting Position on Proposed Legislation, see Attachment 1.
- 2. Matrix of the Cost of Proposed Benefit Improvements, see Attachment 2.

This matrix demonstrates the increased cost as a percentage of payroll or a lump sum amount, as appropriate, to the Teachers' Retirement Fund (TRF) of several measures currently before the Legislature as well as a number of other "conceptual" benefits. The matrix also identifies the funding source that is included in the legislation, if any, as well as the number of members or retirees who would benefit.

3. Matrix of Possible Benefit Increases, see Attachment 3.

This matrix demonstrates the increased benefit to the member or retiree from the proposed or "conceptual" benefit increase.

4. Comparison of STRS Benefits with PERS Benefits, as specified, see Attachment 4.

There has been much debate and criticism recently regarding the level of benefits provided by STRS when compared to other retirement systems, particularly the California Public Employees' Retirement System (CalPERS). Staff has prepared a comparison of STRS benefits to those provided by CalPERS for their classified school members and state miscellaneous members (TIER I).

The major differences between STRS and CalPERS TIER 1 is the 1) age factor after age 60; 2) one year final compensation instead of three year final compensation; 3) credit for unused sick leave for members hired after July 1, 1980; 4) Compounded cost-of-living adjustment; 5) health benefits after retirement; and 6) employee and employer contribution rate.

All of these benefits are proposed for STRS in one or more pieces of legislation currently before the Legislature.

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5. Potential Funding Sources For New Benefits, see Attachment 5.

Staff has identified several potential funding sources for the Board to consider should it choose to sponsor a bill(s) and allocate identified funding.

B. Retirement Plan Study Update

The Board received the Retirement Plan Study at its November 6, 1997 meeting. The study discussed the adequacy of the benefit provided by the STRS Defined Benefit (DB) plan by using replacement ratios to measure the percentage of final compensation needed to continue the pre-retirement standard of living. According to a nationwide survey conducted by Georgia State University in 1993, an adequate replacement ratio should be in the range of 85 percent of the final year's compensation determined at age 65. Since STRS' target replacement ratio is currently 60 percent (based on 30 years of service credit at age 60), the retirement benefit provided by STRS' DB plan does not meet the When considering STRS uses an replacement ratio test. three highest years of of the creditable compensation for final compensation, STRS' replacement ratio is actually closer to 57 percent.

The study also compared the benefits provided by STRS to those provided by the retirement plans of seven other western states. The study demonstrates that STRS benefits do not compare favorably with the other retirement plans. It must be noted, however, that the combined contributions to STRS are less than those of the other states as well. Therefore, one could expect to see a lower level of This should not imply that STRS members do not benefits. receive a benefit equivalent to the contributions paid. primary conclusion to be drawn from this information is that STRS' employers do not contribute an amount for teacher retirement benefits commensurate with the amount contributed by states in the comparison study in order to achieve a like benefit.

Staff discussed the study with employee and employer organizations and requested they provide STRS with their priority for benefit enhancements to address the findings in the study. STRS received official data from only 3 of the 7 organizations - far short of the responses needed to establish a consensus for a priority list.

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Catherine Cole, of Towers Perrin, will provide the Board with an update to this initial study (see Attachment 6). Specifically, Ms. Cole's presentation will cover the following:

- 1. The adequacy of STRS' Defined Benefit (DB) plan replacement ratio; and
- 2. Recommendations on plan design changes that would provide members of the DB plan with an adequate retirement benefit to maintain their preretirement standard of living into the retirement years. This will take into consideration that STRS members do not pay into Social Security. The priority order of plan design changes to enhance benefits will be determined on the basis of the total number of members who would benefit from the enhancement.

Recommendation

Staff recommends the Board support a target replacement ratio of between 80 to 85 percent of final annual salary determined at age 65 in order to achieve an adequate retirement benefit as demonstrated by the Georgia State University Study. Appropriate benefit increases should be identified to achieve this replacement ratio.

C. Impact of Mandatory Social Security

AB-147 (Chap. 743, Statutes of 1988) required STRS to determine the impact of mandatory Social Security coverage for public employees not covered by Social Security. A report was conducted by the State Teachers' Retirement System (STRS) and presented to the Governor and the Legislature. At that time, it was determined to cost an additional 3 percent to 6 percent of payroll for a combined benefit from STRS and Social Security that would provide the same level of benefits then provided by STRS alone. That and the fact that Social Security is not a guaranteed benefit and the reduced value of a pay-as-you-go system resulted in staff recommending the Board oppose mandatory Social Security for public employees. The Board adopted an oppose position at its September, 1997 meeting.

Staff has requested an update to the report completed in 1989 from STRS' Benefits Consultant. Updated information will be provided at the Board meeting.

D. Optional Supplemental Benefits Study

Assembly Bill 2648 from the 1994 legislative session would have required STRS to conduct a study to determine the optional feasibility of offering certain enhancements that member could elect to a purchase. Although the legislation was vetoed, the Board directed staff to conduct the study contemplated by the legislation. The benefits considered in this study would be outside the defined benefit plan and an optional supplement to those benefits already provided by STRS. That study is scheduled for presentation to the Benefits and Services Committee on April 2, 1998 for consideration in the overall package of benefits the Board may wish to pursue.

E. Legislation

Staff has prepared analyses and recommended positions on the following measures for the Board's consideration:

Bill Number	Author	Subject
AB-2616 AB-2766	Prenter PER & SS	<pre>Increased Age Factor (Attachment 7) Final Compensation for LAUSD & Return to Unmodified (Attachment 8)</pre>
AB-2768 SB-1486	PER & SS Rainey	Board Elections (Attachment 9) New Option Beneficiary (Attachment 10)
SB-1528	Schiff	Health Insurance for STRS Members (Attachment 11)
SB-1753	Schiff	Board Investment Decisions (Attachment 12)
SB-2224	Lee	Return to Unmodified (Attachment 13)

Status of Board Sponsored Legislation for 1998

Authors were obtained for all Board-sponsored legislation. Staff is working on updating all departmental analyses for the upcoming hearings which will begin during the last week of March.

Monthly Status

For your information, Attachment 14 is a status report that represents the progress of legislation to date. Ms. DuCray-Morrill will provide a verbal update at the meeting if necessary.

Strategy for Adopting Position on Proposed Legislation

The Board has several alternative strategies to consider in executing its legislative program for 1998. Specifically, the Board could:

a. Continue with its past practice of taking positions on legislation introduced by other parties consistent with the Board's current Policy on Legislation.

For example, the Board has a Support, if amended, position on AB-1102, introduced last year - the first year of this two-year legislative session. This bill would extend credit for unused sick leave to employees hired on and after July 1, 1980, however, the bill does not contain a funding source for the increased benefit. Pursuant to the Board's current Policy on Legislation, it will support benefit increases only if they are funded. Therefore, the Board's position on AB-1102 includes the stipulation that amendments are required in order to secure an unqualified support position.

The Board could continue this approved practice when adopting a position on the legislation that has been introduced in this session on the Legislature. The downside with this approach is that it is reactive and does not put the "weight" of STRS behind any of the bills; thereby decreasing the likelihood of success. This approach also does not provide STRS' membership with the firm commitment from the Board to support increasing benefits. A copy of the present Board Policy on Legislation is attached as Exhibit A.

b. Prioritize benefit increases and sponsor or co-sponsor highest priority measure(s).

The Board will be presented with an array of issues, deficiencies and proposed benefit increases in this agenda. The Board could prioritize those benefits it deems most important in meeting the mission of the Board and STRS and direct staff to execute its priorities. This could be accomplished as several individual bills or a comprehensive bill with all of the priorities included. There are advantages and disadvantages to either method. Funding, of course, must be addressed. The Board will be presented with a list of alternative funding sources for its consideration in advancing its priorities.

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This approach is clearly the most proactive and demonstrates to the membership the Board's commitment to increasing benefits and provides an adequate retirement benefit. It can, however, be somewhat controversial if there is not general consensus among the client organizations or membership on what the priority benefit(s) should be.

c. Establish a neutral position on all benefit increase bills.

Yet another alternative the Board could adopt is to take a neutral position on all of the benefit increase bills pending a strong consensus of the priority for benefit increases among the client organizations and membership. This would put the responsibility for establishing a priority for benefit increases into the hands of the Legislature and Governor. This is essentially a "laissez faire" approach whereby the Board elects not to assert a leadership role. It may also raise some fiduciary issues.

LEGISLATION

The Teachers' Retirement Board (Board) directs staff to make reasonable efforts to achieve passage of pending state and federal legislation or regulations sponsored or supported by the Board, to negotiate amendments to pending legislation or regulations as appropriate and necessary, and to defeat legislation or regulations opposed by the Board according to the following policy:

- I. Sponsor or support legislation or regulations which:
 - A. Are consistent with the objectives of providing financially sound primary and supplemental retirement plans for California's educators.
 - B. Expand and improve in a prudent manner the benefits and services provided through the funds administered by the State Teachers' Retirement System (System) as appropriate for public retirement plans.
 - C. Improve the delivery of benefits and services and provide more effective and efficient administration of the retirement plans.
 - D. Are consistent with the investment policy adopted by the Board as presented in the State Teachers' Retirement System Statement of Investment Responsibility.
 - E. Preserve the assets and minimize the liabilities of the funds administered by the System.
- II. Adopt a neutral position or no position on legislation or regulations which:
 - A. Do not significantly or adversely impact the benefits or services provided through the funds administered by the System or the administration of the retirement plans.
 - B. Affect the composition of the Teachers' Retirement Board or the process by which individuals are appointed to serve as members of the Board.
- III. Oppose legislation or regulations which:
 - A. Adversely affect the actuarial balance of the funds administered by the System, or result in adverse selection against a retirement plan.

- B. Expand or improve the benefits or services provided through the funds administered by the System without adequate funding or provide benefits or services that are not appropriate for public retirement plans.
- C. Deprive members or participants of vested benefits and do not provide equivalent, compensating benefits.
- D. Is special interest legislation to benefit only one individual or a small group of individuals within a larger group unless the Board determines an inequity exists which the legislation or regulation would correct.
- E. Restrict or infringe on the plenary authority of the Board to administer the retirement plans as provided in Section 17 of Article XVI of the California State Constitution.
- F. Restrict the investment authority of the Board or are inconsistent with the investment policy adopted by the Board as presented in the State Teachers' Retirement System Statement of Investment Responsibility.
- G. Appropriate amounts from the funds administered by the System for purposes that are not solely in the best interests of the members, participants, or beneficiaries of the retirement plans.
- H. Endanger the tax-exempt status of retirement plans administered by the System and the deferred treatment of income tax on employer contributions to the plans and related earnings.
- I. Is inconsistent with provisions of Section 403(b) of the Internal Revenue Code of 1986 and the Revenue and Taxation Code that are applicable to the System's annuity contract and custodial account.
- J. Conflict with the System's strategic directions established by the Board.

Adopted by the Teachers' Retirement Board on: September 15, 1989 Revised by the Teachers' Retirement Board on: November 7, 1996 Education Code Reference: 22001; 22250; 22330

STATE TEACHERS' RETIREMENT SYSTEM MATRIX OF COST OF PROPOSED BENEFIT IMPROVEMENTS APRIL 1998

Assumptions: Unfunded Actuarial Obligation proposed to be amortized over a 30 year funding period in all

Benefit Improvement	Bill	Increased Cost t	o Plan	Proposed Funding	Who wil	ll Benefit
	Number	as a percentage of	f payroll		Active	Retired
Increased Age Factor:						
- As Introduced:	AB-2616	Normal Cost	0.616%	No funding source identified in the		
2. 0% at 60 - 2.5% at 70		UAO	0.659%	legislation.	17,408	
		Total	1.275%		aged 61 and older	
- Alternate factors:		Normal Cost	1.100%			
a. "PERS" formula:		UAO	1.128%			
2.0% at 60 - 2.418% at 63		Total	2.228%			
2.070 40 00 21.11070 40 00		10.001	2,220,0			
b. "Other" factors:		Normal Cost	1.190%			
2.0% at 60 - 2.5% at 65		UAO	1.234%			
		Total	2.424%			
Rule of 85	AB-88	Normal Cost	0.290%	Employer to pay the actuarial	12,647	
		UAO	0.429%	present value of the increase in		
		Total	0.719%	benefits.		
One Year Final Compensation,		Normal Cost	0.905%		278,967 ¹	
Mandatory Statewide		UAO	0.734%		270,507	
Wandatory State wide		Total	1.639%			
		10001	1.00770			
Unused Sick Leave	AB-1102	Normal Cost	0.180%	No funding source identified in the	262,976	
		UAO	0.092%	legislation.		
		Total	0.272%			

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¹ Does not include non-vested members.

Benefit Improvement	Bill	Increased Cost to Plan	Proposed Funding	Who wi	ll Benefit
	Number	as a percentage of payroll		Active	Retired
Mandatory Statewide Early Retirement Incentives: Golden Handshake 30 & Out with 2%				278,967 3,086	
Compounded 2% COLA	AB-884	Normal Cost UAO 1.310% Total 1.620%	No funding source identified in the legislation.		150,805
80% Purchasing Power Protection would extend to everyone retired prior to 1984		\$49,508,528	Supplemental Benefit Maintenance Account (SBMA)		56,747 including 10,967 more than at 75%
Vesting SBMA contribution rate		No additional cost for the next 30 years			150,805 overtime
Final Compensation for LAUSD; "Pop-Up" to Unmodified	AB-2766	-0-	LAUSD to fund any increased benefit due to increased final		4,500
Allowance		\$31 million total one time cost	compensation; Revenue from school lands to fund "pop-up".		2,509
"Pop-Up" to Unmodified Allowance	SB-2224	\$31 million total one time cost	Revenue from school lands to fund "pop-up".		2,509
Health Insurance for STRS Members ¹	SB-1528	N/A	Fully funded by member participants		
Reduction in Member Contribution Rate		Varies (depending upon level of reduced contribution)			

COMPARISON

STRS - PERS State Employees - PERS Classified School Employees (Tier I) - Non-Safety

	STRS	PERS: Classified School Member	PERS: State Miscellaneous (Non-safety) (Tier I)
Eligibility for Membership	- All certificated and faculty employees in public schools (K-14) whose basis of employment is 50% or more (mandatory membership)	Non-teaching, noncertificated school employees working one- half time or more	 Non-safety state employees working one-half time or more Non-elected legislative employer
	 Part-time and substitute certificated and faculty employees hired to work less than one-half time may elect to be a member 	 Part-time non-teaching employ- ees working less than one-half time may not be a member 	- Employees working less than one- half time may <u>not</u> be a member
Normal Retire- ment Age	60	60	60
Vesting Require- ment for:			
- Service Retirement	5.000 years credited service Note: 30.000 years service credit required for retirement between ages 50-55	5.000 years credited service	5.000 years credited service
- Disability Retire- ment Allowance	5.000 years credited service or 1.000 year credited service for disability resulting from a violent act perpetrated during the course of one's employment	5.000 years credited service or 1.000 year credited service for disability resulting from a violent act perpetrated during the course of one's employment	5.000 years credited service

	STRS	PERS: Classified School Member	PERS: State Miscellaneous (Non-safety) (Tier I)	
- Survivor Benefits 1.000 year service credit		Benefits are payable based on whether or not the member was eligible for retirement at the time of death, e.g. at least age 50 with 5.000 years of service credit		
- Death Payment (Lump Sum)	1.000 year service credit	The death benefit amount is gradua six years of service credit.	ated, with the full amount payable after	
Benefit Formula at Normal Retirement Age (Age 60) (Service Retirement)	2% @ 60 (2 <u>x</u> years of credited service <u>x</u> final compensation)	2% @ 60 (2 <u>x</u> years of credited service <u>x</u> final compensation)	2% @ 60 (2 <u>x</u> years of credited service <u>x</u> final compensation)	
Age Formula (Factor) After Age 60 (Service Retirement)	Same as at age 60 - 2%	2.134 @ age 61 2.272 @ age 62 2.418 @ age 63	2.134 @ age 61 2.272 @ age 62 2.418 @ age 63	
Benefit Formula Prior to Age 60 (Normal Retirement Age): (Service Retirement)	1.88 @ age 59 1.76 @ age 58 1.64 @ age 57 1.52 @ age 56 1.40 @ age 55 1.34 @ age 54 1.28 @ age 53 1.22 @ age 52 1.16 @ age 51 1.10 @ age 50	1.874 @ age 59 1.758 @ age 58 1.650 @ age 57 1.552 @ age 56 1.460 @ age 55 1.376 @ age 54 1.296 @ age 53 1.224 @ age 52 1.156 @ age 51 1.092 @ age 50	1.874 @ age 59 1.758 @ age 58 1.650 @ age 57 1.552 @ age 56 1.460 @ age 55 1.376 @ age 54 1.296 @ age 53 1.224 @ age 52 1.156 @ age 51 1.092 @ age 50	
Rule of 85 Final Compensation	No Highest average compensation for 36 consecutive months Note: Districts can choose to provide final compensation averaged over 12 consecutive months	No Highest average compensation for 36 consecutive months No option to choose compensation averaged for 12 consecutive months	No Highest average compensation for 12 consecutive months	

	STRS	PERS: Classified School Member	PERS: State Miscellaneous (Non-safety) (Tier I)
Disability Formula	50% of final compensation (some exceptions in Coverage A)	1.8% x years of credited service x final compensation Benefit may be improved to 33-1/3% for service credit between 10 & 18-1/2 years	1.8% x years of credited service x final compensation Benefit may be improved to 33-1/3% for service credit between 10 and 18-1/2 years
Automatic Cost-of- Living Adjustment	2% annual <u>simple</u>	2% annual compounded	2% annual compounded
Purchasing Power Adjustment	75%	75%	75%
Credit for Unused Sick Leave	Yes - for persons who were members prior to 7/1/80	Yes - for persons who were members prior to 7/1/80	Yes - for all members regardless of date of hire
Golden Handshake: 2 Years additional Service Credit	Yes	Yes	Yes
Health Benefits After Retirement	Provided only on a district-by- district basis. Districts may choose to provide PEMHCA coverage	Provided only on a district-by- district basis. Districts may choose to provide PEMHCA coverage	Yes (If a member retires either 120 days of separation of employment with the requisite 5, 10 or 20 year vesting requirement)
Purchase of Service Credit			
- Out-of-State Ser- vice	Yes, Effective 1-1-99 for public school employment	No	No
- Military	Yes	Yes	Yes
- Redeposit of With- drawn Contributions	Yes	Yes	Yes

	STRS	PERS: Classified School Member	PERS: State Miscellaneous (Non-safety) (Tier I)
Miscellaneous Issues			
- Ability to Adjust Employer Contri- bution Rate	No	Yes	Yes
- Current Contri- bution Rates			
- Employee	8%	7% in Social Security: 7% of salary over \$133.33 No Social Security: 7% of salary	In Social Security, 5% of salary over \$513. No Social Security, 6% of salary over \$317.
- Employer	8.25%	6.172% (as of FY 1997/98)	Varies based on actuarial calculations (12.721% as of FY 1997/98)

COMPARISON OF STRS/PERS OPTION FACTORS

Beneficiary Assumed To Be Age 55 In All Cases

	Opt	ion 2	Op	tion 3	Opt	tion 6	Opt	ion 7
Member								
Age	STRS	PERS School Classified & State Tier I	STRS	PERS School Classified & State Tier I	STRS	PERS School Classified & State Tier I	STRS & Sta	PERS School Classified te Tier I
55	89.2	89.2	95.4	94.3	88.4	87.9	95.0	93.6
56	88.3	88.4	95.0	93.8	87.5	87.1	94.5	93.1
57	87.3	87.5	94.5	93.3	86.5	86.1	94.0	92.6
58	86.3	86.6	94.0	92.8	85.4	85.2	93.5	92.0
59	85.2	85.6	93.5	92.2	84.3	84.1	92.9	91.4
60	84.0	84.5	92.9	91.6	83.0	83.1	92.3	90.7
61	82.7	83.4	92.2	90.9	81.8	81.9	91.7	90.1
62	81.4	82.2	91.5	90.2	80.4	80.7	90.9	89.3
63	79.9	81.0	90.8	89.5	78.9	79.4	90.2	88.5
64	78.4	79.6	90.0	88.7	77.4	78.1	89.3	87.7
65	76.8	78.2	89.1	87.2	75.8	76.6	88.5	86.8
66	75.1	76.7	88.2	86.8	74.1	75.1	87.5	85.8
67	73.3	75.1	87.2	85.8	72.3	73.5	86.5	84.8
68	71.4	73.4	86.1	84.7	70.5	71.9	85.4	83.6
69	69.5	71.7	85.0	83.5	68.5	70.2	84.3	82.5
70	67.5	69.9	83.8	82.3	66.5	68.4	83.1	81.2

POTENTIAL FUNDING SOURCES FOR NEW BENEFITS

I.	Ongoing					
	Source		Amount			
A.	Elder Full Fund	ding - all or a portion - once fully funded	4.3%			
B.	Reamortize the Unfunded Obligation funded entirely by Elder Full Funding over an extended period and utilize the balance for new benefits:					
	10-year period 20-year period 30-year period	Revised Funding Rate: 0.707% - Balance Available =	2.664% 3.223% 3.406%			
C.	Amount availa	ble for new benefits derived from:	1.017%			
	.21% .25% .25% .307%	Reduction in normal cost from 16.00% to 15.79% Shifting administrative expenses from normal cost to a charge against the fund. Consistent with PERS funding of administrative expenses. Current unused sick leave funding available when TRF 100% funded. Current ad hoc funding available when TRF 100% funded.				
D.	Annual school	lands revenue displayed as a percent of payroll	.0127%			
E.	Increased emplin some stated	loyee and/or employer contributions amount.				
II.	One-Time:					
	Source		Amount			
A.	School Land B	ank Fund	\$20 million			
B.	Excess contrib	ution for normal cost in 1997-98 fiscal year	\$30 million			

Retirement Plan Study for the California State Teachers' Retirement System

Evaluating Adequacy, Competitive Position, and Suggested Plan Changes

Agenda

- Objectives of the Study
- Review of Current Retirement Plan
- Evaluating Adequacy: Issues and Statistics
- Suggested Changes to Current Program
- Appendix A Average Replacement Rates Summary From 1991 U.S. DOL, Bureau of Labor Statistics Report
- Appendix B Discussion of Section 403(b) Plan

Retirement Plan Study for the California State Teachers' Retirement System

Objectives of the Study

Retirement Study

During 1997, a retirement study was performed and presented to staff, clients, employer advisory committees, and the Board.

- Objectives as outlined from the study in 1997:
 - Review demographics of STRS membership.
 - Determine appropriate level of retirement benefits for all members.
 - Review STRS's plan provisions in terms of level of benefits and vesting.
 - Consider alternative methods of distributing benefits and increasing portability.
 - Suggest alternative plan design and features to satisfy objectives.
 - Achieve objectives without cost increase.

Retirement Study

- The important issues affecting the ability to meet the objectives addressed:
 - Employing and retraining career teachers
 - Attracting new members by providing meaningful and competitive benefits
 - New teachers right out of college
 - Mid-career hires for whom teaching is a second (or delayed) career
 - Providing knowledge on alternative features and plan designs to participating employers (and client organizations)
 - Offering benefit enhancements requested by members (and client organizations)
 - More like "PERS" (increased benefits over age 60)
 - Enhanced early retirement provisions Rule of 85
 - Final salary used in all benefit determinations instead of three-year average (Final salary is currently optional, with costs passed on to client organizations).

Retirement Study

- Challenges to balance the objectives and issues:
 - Benefit improvements will increase costs if there is no offsetting benefit reduction elsewhere in the plan.
 - Enhanced early retirement provisions may be in conflict with retaining members until normal retirement and may lead to a shortage of available teachers.
 - Portability of pension may not support other objectives.
 - Increase costs if terminated members are given a portable benefit (other than return of member contributions with interest).
 - If termination benefits increase without an increase in the cost of the plan, a lower level of benefits will be provided to career teachers at retirement.
 - Reciprocity with other California public funds
 - Out-of-state service credit
 - Alternative plans may provide a lower level of benefits at retirement because of changes in the pattern of benefit accruals and disbursements.

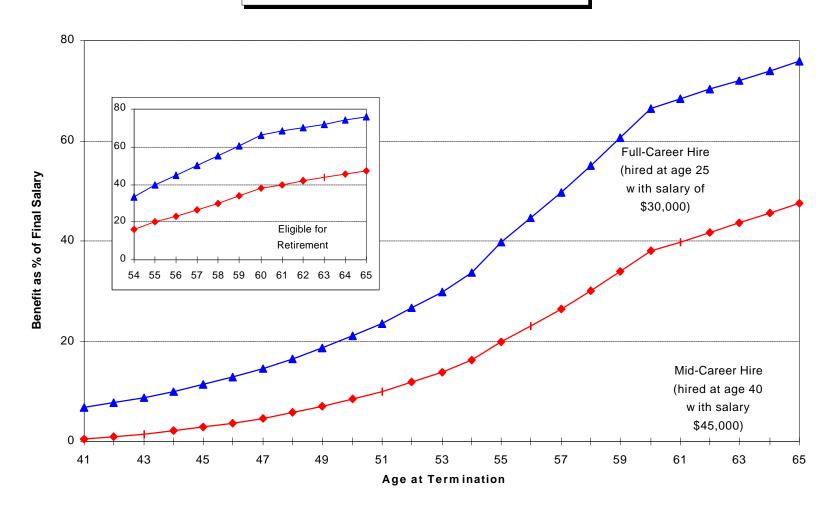
Review of Current Retirement Plan

How does the current plan accrue benefits?

- Benefit accrual pattern
 - Defined as actual accrual pattern of benefits throughout a member's career
 - Differs by type of plan provided
 - Differs by early retirement subsidies.
- Most defined benefit plans have different accrual patterns from defined contribution plans because of the differences of account balances from annuities.
- Current plan has a typical accrual pattern for traditional defined benefit plans.

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California State Teachers' Retirement System Benefit Accrual Pattern



What does the current benefit plan cost?

- In recent years, the plan's normal cost rate has been approximately 16% of compensation (funding level is approximately 20%).
- The normal costs of the following benefits are allocated as follows:
 - Employees (8%)
 - Employer and others (approximately 8%).
- Costs are allocated as follows*:

	4%
 Disability benefits 	
 Death benefits 	2%
 Refund/withdrawal benefits 	5%
 Administration of plan 	2%
Total cost of plan1	00%

* Information provided by STRS and Milliman & Robertson, Inc. report.

Evaluating Adequacy: Issues and Statistics

Evaluating adequacy of benefits using replacement ratios

Definitions:

- Replacement ratios for this study are defined as a measure of the amount needed to continue preretirement standard of living.
- Alternative definition refers to needs as only the basic necessities of life, but is not applicable for the study.
- Other prevalent studies review benefits actually provided by employers, but ratios produced are not appropriate for needs comparisons.
- Additional information concerning replacement ratios:
- Replacements can be provided by both employee and employer sources.
- Most expenses decrease at retirement.
- Exceptions are food and health care expenditures.

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A 1993 Georgia State University study identified two mathematical expressions:

Example: Basic Data

Gross Final Salary =	\$50,000
Retirement taxes and savings =	\$13,297
Net Final Salary =	\$36,703
Age- and Work-related expenses =	\$2,239
Postretirement Taxes =	\$1,416

Tax and Savings Model

(Net Final Salary* plus Postretirement Taxes (\$36,703 + \$1,416 = \$38,119)divided by Gross Final Salary $(\$38,119 \div \$50,000 = 76.2\%)$

^{*}Net Final Salary equals Gross Final Salary minus Taxes and Savings

Sample Findings of 1993 GSU Study*

Postretirement Salary	Formula A (Gross)	Social Security	Formula A (Net of Social Security)
\$15,000	85.1%	69.8%	15.3%
20,000	81.5	63.5	18.0
25,000	79.2	59.6	19.6
30,000	77.6	55.3	22.3
40,000	76.0	44.3	31.7
50,000	76.2	36.9	39.3
60,000	76.0	31.1	44.9
70,000	76.9	26.7	50.2
80,000	77.1	23.4	53.7
90,000	77.5	20.8	56.7

^{*}Married couple (one wage earner); age-65 worker; age-62 spouse Social Security is 137.5% of the wage earner's benefit, estimating the family benefit.

Comments on replacement ratios

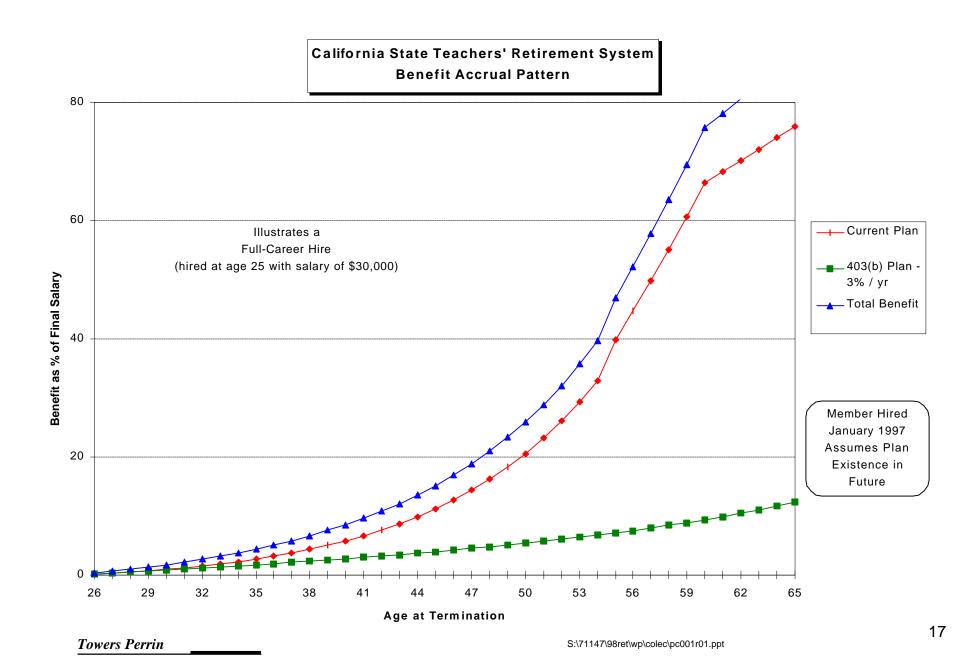
- The "Gross" amount should be the focus for STRS, since Social Security is not applicable.
- Most studies use age 65 as the basis for developing retirement replacement ratios.
- If an employee retires prior to age 65, income needs will **increase** because of the higher cost of medical expenditures until eligible for Medicare.
- If an employee is not eligible for Medicare, income needs will increase for all retirement ages because of the higher cost of medical expenditures.
- The replacement percentages shown on the prior page do not take any cost-of-living increases into account. In general, only the Social Security portion will have a cost-of-living increase feature. In comparison, STRS provides a purchasing power minimum of 75% of the entire benefit at retirement.
- Other replacement ratio studies with similar results:
 - Salary of \$25,000 in the professional category resulted in a replacement ratio of 71.0% (combined private pension and Social Security benefit). See Appendix A. This study reviewed private-company practices, not projected needs.
 - In a 1995 KPMG study of benefits provided by employers the average wage replacement goal for a career employee was 53% of income. (Amount does not include Social Security, which may provide 30% to 60% of final compensation of \$60,000 to \$25,000.)

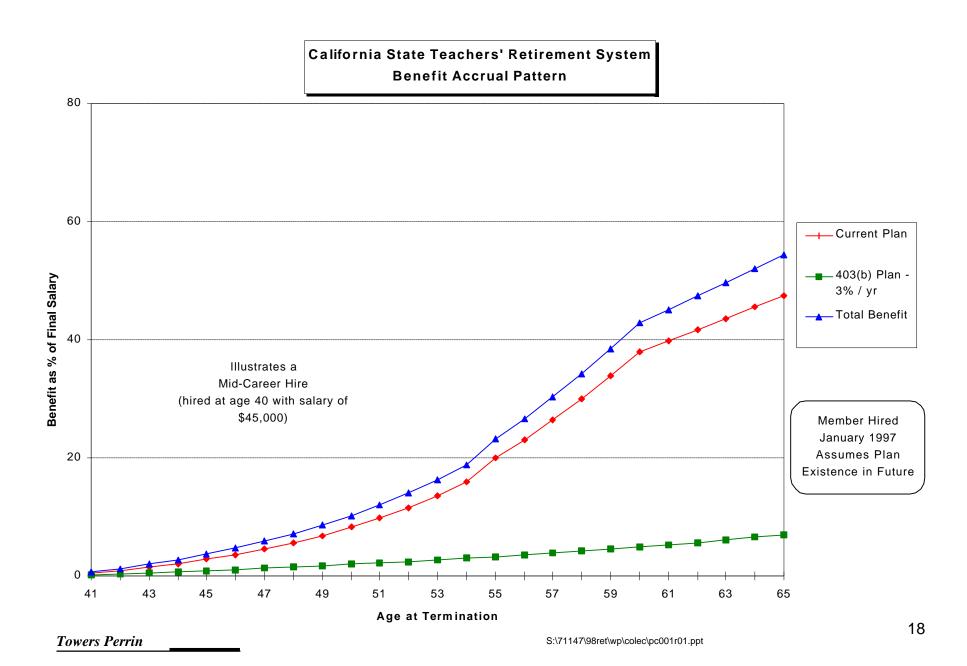
Evaluating the adequacy of the current plan using the threelegged approach

- An individual's retirement benefit is provided by the following three "legs":
 - Employer-provided benefits
 - Personal savings
 - Social Security.
- Average retiree, age 60 with 30 years of service, receives 60% of final average salary from employer-provided retirement plan.
- Adequacy refers to the percentage of preretirement salary replaced by retirement benefits (measure of retirement affordability without decrease in standard of living).
- Both the STRS benefit and Section 403(b) plan deferrals use annuities to convert benefits into level, annual payments.
- If a member does not defer salary into the Section 403(b) plan, then the STRS benefit equals the total benefit.
- The following issues affect the evaluation process:
 - Level of personal savings
 - Retirement age
 - Service at retirement.

Adequacy of current plan (assumptions for graphs)

- Social Security benefit is assumed to equal zero.
- Personal savings is assumed to equal 3% of salary each year (403(b) plan and other savings plans).
- Characteristics for two sample members
 - Age 25 at hire
 - Starting salary of \$30,000
 - Eligible for early retirement at age 55
 - Age 40 at hire
 - Starting salary of \$45,000
 - Eligible for early retirement at age 55.
- Assumptions
 - 6.75% interest (current investment return for STRS cash balance plan)
 - 5.5% salary increase
 - 2.0% cost-of-living increase
 - 1983 GAM (female) mortality table used for conversion as percentage of final salary
 - Benefit deferred to age 60 unless eligible for STRS early retirement benefit, then immediate retirement assumed
 - Final salary on graphs refers to salary at termination.





Adequacy: How does STRS measure up to the 1993 GSU study?

- Based on the GSU study, 76% of earnings using Formula A (Gross) is needed at the \$50,000 level. Based on assumptions by Towers Perrin for retirement age 60, approximately 76% is needed using methodology Formula A (Gross).
- The replacement ratio provided by STRS is:

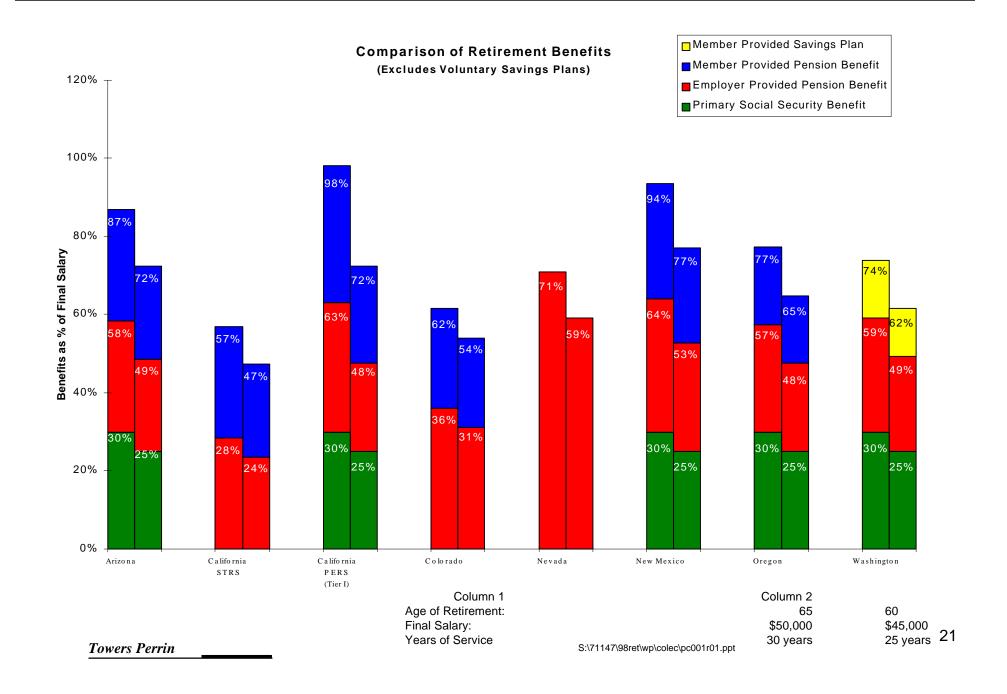
	Including 403(b) Savings Retirement Retirement		Excluding 403(b) Savings RetirementRetirement	
	Age 65	Age 60	Age 65	Age 60
 Hired at age 25 Difference - Formula A (Gross) 	94% 17	80% 4	76% (1)	66% (10)
Hired at age 40Difference - Formula A (Gross)	57 (20)	44 (32)	47 (30)	38 (38)

- STRS provides a 2% cost-of-living increase that makes the benefit more valuable. (After approximately 14 years in retirement, purchasing power is reduced below 75%.)
- Approximately 17% to 35% of the benefit in the 1993 GSU study does not have a cost-of-living increase. (Purchasing power declines more rapidly.)

Comparison of current plan to selected teacher systems

- Retirement benefits are summarized for PERS Tier I and selected state teacher systems in the West (benefit information provided by STRS in "Comparison of Teachers' Retirement Systems for Eight Western States").
- Retirement age is assumed to be age 65 in order to include Social Security benefits.
- Other personal savings are assumed to equal zero.
- Member contributions are included if they are mandatory. Voluntary savings plans such as 403(b) plans not included.
- Other assumptions
 - Final salary of \$50,000
 - Retirement age 65 and 60 with 30 and 25 years of service, respectively
 - 6.75% interest
 - 5.5% salary increase
 - 0.0% cost-of-living increase
 - 1983 GAM (female) mortality table used for conversion as percentage of final salary
 - Social Security benefit is for individual only, does not take into account other family benefits that may be payable.

Retirement Plan Study for the California State Teachers' Retirement System



Comparison of Retirement Benefits

Summary of Contribution Rates for Selected Employers

	% of Salary Contributed to Plan Social		Total Member	Total Employer	Total	
	Member	Employer	Security	Contribution	Contribution	Contribution
Arizona	3.1%	3.1%	Yes	9.3%	9.3%	18.6%
California (STRS)	8.0	8.0	No	8.0	8.0%	16.0%
California (PERS)	6.6	7.0	Yes	12.8	13.2	26.0
Colorado	8.0	11.1	No	8.0	11.1	19.1
Nevada	0.0	18.4	No	0.0	18.4	18.4
New Mexico	7.6	8.7	Yes	13.8	14.9	28.7
Oregon	6.0	8.0	Yes	12.2	14.2	26.4
Washington	7.5*	6.5	Yes	13.7	12.7	26.4

^{*}varies by age and option

■ The contribution rates shown above have been rounded. Washington and Colorado had multiple options and/or multiple rates. The median option was chosen, and contribution rates were averaged.

Adequacy: How does STRS measure up to other teachers' retirement systems and PERS?

- Other teachers' retirement systems and PERS provide larger benefits at age 65.
- Many provide benefits in excess of the 72% referenced from the 1993 GA study of replacement ratios.
 - Not all of the benefits have a cost-of-living increase applied to them STRS has 2% a year on entire benefit. (Benefits without a cost-of-living increase provide less in the future.)
 - 8% was the highest member contribution rate without Social Security. (With Social Security, Arizona, PERS, New Mexico, Oregon and Washington have higher employee contribution rates.)

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Suggested Changes to Current Program

There are some innovative features that can be used within the current plan

- DROP
 - Back-DROP Election at time of retirement to take lump sum on value of accrued benefit in the past two to five years.
 - Forward-DROP Election to take lump sum on value of current accrued benefit at a date in the future.
- Partial lump sum
 - Election to take 25% or 50% of accrued benefit as a lump sum at time of retirement.
 - Easier than DROP to administer and understand.
- DROP and lump sum features could be actuarially equivalent, so no additional cost to the plan.
- Consider increasing age factors after age 60.
 - This would increase costs but discourage members to retire early.

Adequacy and Competitive Conclusions

- Level of benefits at retirement:
 - May not be adequate.
 - If the replacement ratio is intended to keep standard of living the same (pre- and postretirement), the retirement income from all sources should be in the range of 80% to 85% at age 65.
 - STRS is not competitive when compared to other western states teachers' systems.
- Both adequacy of retirement and portability objectives cannot be met without a cost increase.

Suggested Benefit Improvements

- Improved funding status allows for consideration of benefit enhancements
- Weighing retentions and adequacy as both being important STRS Board should consider:
 - 1. Increase age factors after 60
 - 2. Change to final one-year salary
- Favoring adequacy as important over retention STRS Board should consider:
 - 1. Rule of 85
 - 2. Drop plan that is not cost neutral
 - 3. Improve COLA formula



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Appendix A — U.S. Department of Labor, Bureau of Labor Statistics, "Employee Benefits in Medium and Large Private Establishments, 1991" -- Average Replacement Rates

Defined Benefit Pension Plans (a)
Average Replacement Rates for Specified Final Earnings and
Years of Service, Medium and Large Private Establishments, 1991

Final Annual Earnings		Years of Plan Participation (b)				
	Private Pension Only		Combined Private Pension and Primary (C) Social Security Benef			
	20 years	30 years	20 years	30 years		
All Participants	27.4%	39.3%	63.8%	85.0%		
\$15,000	22.932.5		52.471.1			
\$25,000	21.430.8		47.462.9			
\$35,000						
Professional, technical, and related						
\$15,000	24.835.3		61.181.1			
\$25,000	22.832.4		52.471.0			
\$35,000	22.632.8		48.764.9			
Clerical and sales						
\$15,000	26.237.1		62.582.9			
\$25,000	23.533.0		53.171.6			
\$35,000	22.832.6		48.864.7			
Production and service						
\$15,000	29.742.8		66.088.6			
\$25,000	22.532.2		52.170.8			
\$35,000	19.828.6		45.860.7			

Next release: Undetermined

specified that such time was to be included in the benefit computations.

(c) Excludes benefits for spouses and other dependents.

Date of publication: May 1993

Retirement Plan Study for the California State Teachers' Retirement System

Appendix C: Discussion of Section 403(b) Plan

- Section 403(b) Plan available to all STRS members.
- Members can defer up to \$9,500 annually on a pretax basis. (Contributions are also limited by IRS rules which are quite detailed.)
- Members enjoy ability to save and reduce current tax liability.
- Investment earnings accumulate tax free.
- Could be promoted to ensure members reach adequate level of retirement income as a portion of personal savings.
- Approximately 50% of members participate in 403(b) program.

Assembly Bill 2616, Assemblymember Prenter

(Introduced 2/23/98)

Position: Defer (Staff Recommendation)

Proponents: California Teachers' Association

Opponents: Unknown

SUMMARY

AB-2616 would incrementally increase the benefit factor of 2 percent at age 60 to 2.5 percent at age 70.

HISTORY

AB-2512 (Epple, 1994), vetoed by the Governor, would have prescribed an increased formula for certain members who retired after June 30, 1995, were over normal retirement age, and had a minimum of 20 years of credited service. The bill proposed a maximum percentage of 2.5 of final compensation per year of credited service at age 65.

AB-1074 (Epple, 1992), vetoed by the Governor, would have increased the age factor from 2 percent to 2.5 percent of final compensation for STRS members who work until age 65 and have at least 20 years of service.

CURRENT PRACTICE

The Teachers' Retirement Law (TRL) prescribes a 2 percent at age 60 age factor. The earliest age at which a teacher can retire from service with a monthly benefit under the STRS Defined Benefit (DB) plan, is age 50, with 30 years of service credit. A standard early retirement is available, at age 55, providing the applicant has at least five years of credited service.

Under current law, the age factor ranges from 1.5 percent with retirement at age 55, up to a maximum of 2 percent at age 60. There is \underline{no} increase in the retirement factor, however, for teachers who continue teaching beyond the age of 60.

The formula utilized for calculating an unmodified retirement allowance includes three elements; a retiree's service credit, age factor, and final compensation. This formula results in a

retiree's Unmodified Allowance. In addition, each year retirees receive an improvement adjustment equal to 2 percent of the initial allowance. In addition to the annual improvement, two types of post-retirement benefit allowances support the purchasing power of a retiree; an ad hoc grant resulting from specific legislation, and/or annual supplemental benefit payments, derived from direct state contributions or revenue from the use of school lands.

DISCUSSION

AB-2616 provides that a member who has attained age 60 or more and who retires for service after January 1, 1999, will receive a retirement allowance consisting of an annual allowance, payable in monthly installments upon retirement, equal to the percentage of the final compensation at the member's age at retirement, multiplied by each year of credited service, as follows:

Age at Retirement	Percentage
60	2.00
61	2.05
62	2.10
63	2.15
64	2.20
65	2.25
66	2.30
67	2.35
68	2.40
69	2.45
70	2.50

The increase in the age factor included in this original version of AB-2616 is intended to initiate debate, negotiation and potential compromise with STRS on a cost-effective benefit increase. Therefore, the sponsor of the bill is agreeable to consider modifying the proposed increased age factor based on recommendations by STRS. Staff continues to study cost estimates associated with several different scenarios of factors.

As previously discussed with the Board, the findings of the Retirement Plan Study indicate that the benefit provided by

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the DB plan may not provide an adequate replacement ratio according to the Georgia State University Study. The benefit increase included in this bill will provide some measure of increase toward achieving a higher replacement ratio and to that end staff supports the intent of this bill.

An adjustment of STRS' retirement age factor, is viewed by some as an important component in addressing the serious problem of the shortage of credentialed teachers in California.

With the expansion of the class size reduction program, school districts may be forced into hiring inexperienced, noncredentialed individuals as teachers. The proposed change in the STRS benefits may offer a longevity incentive and help retain experienced, effective teachers, thereby helping alleviate the teacher shortage.

Based upon data presented by the actuary in the June 1997 valuation, an estimated 14,000 members are currently active, age 60 to 64 and 11 months with four or more years of service credit. An estimated 5,248 are currently active age 65 and over with four or more years of credited service, for a total of 19,398.

AB-2616 does not address certain important points and needs clarifying amendments. For example, the bill does not address if STRS will use the higher age factors on "nonmember spouses" and "inactive members" who retire after they have attained age 61. The bill does not specify if the "family allowance" payable to a surviving spouse after he or she has attained the age of 61 shall be calculated using the proposed age factors and if the service credit and final compensation will be projected past age 60. AB-2616 does not state if the service retirement allowance payable to a member who is receiving a disability allowance past age 60 because of a "dependent child" shall be calculated using the proposed age factors and if the service credit and final compensation will be projected past age 60. The bill does not address if STRS should use the higher age factor in calculating the "surviving spouse benefit" under Coverage B if the member dies prior to retirement and has attained at least age 61.

If the purpose of the bill is to retain qualified teachers because of the teacher shortages, the increased age factor should not be extended to the other situations. Equity and adequate retirement benefits, however, would seem to dictate consistent treatment of all benefit recipients.

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Identifying the most appropriate formula and addressing the cost considerations and funding sources are all issues that must be resolved before staff can make a recommendation to the Board to sponsor, co-sponsor, or support this bill.

FISCAL IMPACT

<u>Program</u> - The provisions proposed in AB-2616 would result in an increase to the normal cost rate of 0.616 percent and an increase to the unfunded obligation funding rate of 0.659 percent amortized over 30 years. This would result in a total contribution rate increase of 1.275 percent with the unfunded obligation component amortized over 30 years.

<u>Administrative</u> - Approximately \$158,195, for one-time administrative implementation costs of approximately \$152,195 and 3.5 PYs and an additional \$6,000 to modify the IDMS Database.

START Project costs are undetermined at this time.

RECOMMENDED POSITION

Defer - Staff recommends the Board defer action pending more detailed information and discussion on all the benefit-related legislation and identification of a funding source.

Assembly Bill 2766, Assembly PER&SS (Introduced 2/20/98)

Position: Oppose (Staff Recommendation)

Proponents: ACSA, CRTA (Co-Sponsors)

Opponents: Unknown

SUMMARY

AB-2766 Would:

Section 1: Add a definition of final compensation for specified LAUSD members and if that new definition results in a higher benefit, funding would be provided by LAUSD, and

Section 2: Provide for the return to an unmodified allowance for certain members who retired prior to 1991 under specified conditions. Funding for the return to the unmodified allowance would be provided from July 1, 1999 until June 30, 2017 from the School Lands Revenue.

HISTORY

Section 1: FINAL COMPENSATION

SB-698 (Chapter 860/93) provided that a member's retirement allowance calculation be based on the member's highest earnable compensation during <u>any</u> three years of his or her STRS membership, if the member's salary was reduced because of budget reductions. It also provided the employer, under specified conditions and until July 1, 1996, the opportunity to report the earnable and earned salaries that would have been reported had the salaries not been reduced due to budget reductions.

Section 2: RETURN TO UNMODIFIED ALLOWANCE

SB-754 (Chapter 911/93) allowed STRS members who retired before January 1, 1991, under Option 2 or Option 3, to elect to change to Option 6 or Option 7 (added by SB 682 Chapter 97/90) during the period of July 1, 1994 through December 31, 1994. The retired member could change options only if the same option beneficiary was named, the option beneficiary was not deceased at the time of the change in options, and the option beneficiary had no known terminal illness. The retirement allowance payable to the retired member after an option change under this bill would be reduced from the current modified allowance.

SB-1658 was introduced during the 1996 Legislative session to allow STRS members who retired under Options 2, 3, 4, or 5 before January 1, 1991 to return to the unmodified allowance amount if the option beneficiary had died before January 1,1995. SB-1658 was later amended to exclude Option 4 and 5 retired members from eligibility and, ultimately, the bill was amended to require a study to determine the cost and impact to STRS of providing this benefit.

CURRENT PRACTICE

Section 1: FINAL COMPENSATION

Final compensation is used in the determination of a benefit from the STRS Defined Benefit (DB) plan. Final compensation is the average annual compensation earnable by a member during any three consecutive years, usually the last three years of employment. Under specified circumstances, and when provided by the employer, it can be determined as the highest annual compensation earnable during any period of 12 consecutive months.

A member whose salary was reduced because of budget reductions during the three years prior to a benefit effective date may elect to have his or her benefit calculated using any three years, the years do not have to be consecutive. Prior to July 1, 1996, the employer could safeguard the retirement benefit of members who had a salary reduction by reporting and remitting contributions on the creditable compensation that would have been paid had the reduction not taken place. That option sunsetted on July 1, 1996.

Section 2: RETURN TO UNMODIFIED ALLOWANCE

A member who is retired under an option has his or her allowance modified in order to provide a continuing allowance to the specified option beneficiary. The factors used in the modification are determined by the option selected and the ages of the retired member and option beneficiary. Current statutes provide for six options, Options 2, 3, 4, 5, 6, & 7. Option 6 and Option 7, which were not available prior to January 1, 1991, allow for the retired members' allowance to return to the unmodified amount if the option beneficiary pre-deceases the retired member. Options 2, 3, 4, and 5 do not allow for the retired members' allowance to return to the unmodified amount.

The annual revenues deposited to the Teachers' Retirement Fund (TRF) pursuant to Section 6217.5 of the Public Resources Code are distributed annually, in conjunction with the proceeds of the Supplemental Benefit Maintenance Account (SBMA), in quarterly supplemental payments to provide purchasing power protection of up to 75 percent for those retired members who have seen the purchasing power of their allowances erode below that level.

DISCUSSION

Section 1: FINAL COMPENSATON

SB-698 (Chapter 860/93) provided all members and employers with two options for safeguarding the retirement benefits of members who had their salaries reduced due to budget restrictions. Under Education Code Section 22136, members are currently able to specify which three year periods to use in the computation of final compensation if the three highest years are not consecutive due to salary reductions because of budget restrictions. Employers are no longer able to report and remit on salaries reduced during prior year budget restrictions as though the salaries were not reduced. That section of the Education Code, 23004.5, went into sunset on July 1, 1996. However, during the two and one half years that it was available, no employer reported salaries under those provisions.

This bill would provide for only members who were employed by LAUSD and had their salaries reduced during the period July 1, 1990 through July 1, 1995, retired or died during that period, and whose final compensation was effected by a reduction in salary (for no specified reason) to have their final compensation redefined as though there had been no reduction in salary. LAUSD would provide the funding for any increased cost to the DB plan for providing benefits based upon the redefined final compensation, in a manner prescribed by the Board.

Approximately 900 members retire annually from LAUSD, over the five year term specified in this bill the potential is for 4,500 retired members to request a recalculation of a benefit under the redefined final compensation. This would be a huge administrative undertaking on behalf of a select segment of the DB plan membership because the employer failed to utilize the provision of Education Code section 23004.5 while they were in effect.

Section 2: RETURN TO UNMODIFIED ALLOWANCE

This bill would return to the unmodified allowance of any retired member under all of the following:

- 1. the member retired prior to January 1, 1991, and
- 2. the member selected Option 2, 3, 4, or 5, and
- 3. the beneficiary of the member died prior to January 1, 1995, and
- 4. the member has not selected a new beneficiary, and
- 5. the unmodified allowance is greater than the modified allowance plus the benefit adjustments and the quarterly supplemental payments the retired member is receiving.

There are approximately 2,509 members who would qualify to make this election and have their retirement allowances returned to the unmodified amount. Members who had retired prior to January 1, 1991 and whose option beneficiary was still living had the opportunity to make a similar election in 1994.

The General Fund transfers 2.5 percent of payroll annually to the SBMA to fund purchasing power protection. The revenue received pursuant to Section 6217.5 of the Public Resources Code, in conjunction with the proceeds of the SBMA, fund the 75 percent purchasing power protection provided by the Ruth Q. DePrida Pension Protection Act of 1997 (SB-1026, Schiff/Chapter 939). the revenue received pursuant to Section 6217.5 of the Public Resources Code is no longer available to fund purchasing power protection, the supplemental payments will be disbursed solely from the SBMA. The impact that will have on the long range forecast for funding supplemental payments at 75 percent minimal as the revenue from the schools lands has averaged only \$3 million a year during the same period, 1989/90-1997/98, that the supplemental payments have averaged around \$175 million.

FISCAL IMPACT

Section 1: FINAL COMPENSATION

<u>Program</u> - None, LAUSD would be required to pay the actuarial present value for any benefit increase.

Administration - Significant, staff has determined it would cost approximately \$500,000 to identify the tasks and methodology required to implement this bill by recalculating the allowances and collecting additional contributions on potentially 4,500 members. The effort would be entirely manual, as there is no existing automated process suitable for modification to include this additional requirement.

Section 2: RETURN TO UNMODIFIED ALLOWANCE

<u>Program</u> - The actuary has determined that it would cost approximately \$31,786,000, or .016 percent of payroll over the next 18 years, to provide this benefit. The revenue received from school lands, while not directly tied to payroll, was .0127 percent of payroll this past year, which would have been .0033 percent of payroll, or \$485 thousand, less than needed.

The annual revenues pursuant to Section 6217.5 of the Public Resources Code fluctuate from year to year. Since the inception of the program, 1984-85, they have ranged from a high of \$10,119,124 to a low of \$1,197,500, with an average over the 14 years of \$4,467,501. If the annual revenue exceeds annual benefit expense there will be no program cost, however, to the extent the revenue falls short of the annual benefit, there will be a program cost. The funding period provided in this bill could be extended, if needed, thereby alleviating any potential underfunding.

Administrative - Minor and absorbable.

POSITION

Oppose - Staff recommends an oppose position on this bill due to the provision of the bill dealing with final compensation. This bill would provide a benefit to only members of LAUSD, and, in keeping with the Board's policy to oppose legislation to benefit a small group of individuals unless an inequity has been determined, an oppose position is appropriate. No inequity has been determined, all employers had the opportunity to provide such a benefit on behalf of their members' prior to the sunset date of Education Code Section 23004.5, and none did.

Identical language covering the return to the unmodified allowance is cited in SB-2224, Lee.

Assembly Bill 2768, Assembly PER&SS, Assemblymember Honda

(Introduced 2/26/98)

Position: No Position (Staff Recommendation)

Proponents: Assemblymember Honda (Sponsor)

Opponents: Unknown

SUMMARY

This bill would require that the four "teacher" members of he Teachers' Retirement Board (Board) be elected to the Board from their respective constituencies rather than appointed by the Governor.

HISTORY

The Board did not take a position on any of the following measures which also would have required election of the four State Teachers' Retirement System (STRS) members of the Board:

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1997/AB-885 (Honda) vetoed

1996/SB-168 (Hughes) died - Assembly Policy Committee

1994/SB-277 (Hughes) vetoed

1991/AB-216 (Hughes) died - Assembly Floor

1990/AB-2642 (Elder) vetoed

1988/AB-3194 (Elder) vetoed
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CURRENT PRACTICE

Under existing law, the STRS and the Teachers' Retirement Cash Balance Plan are administered by the 12-member Teachers' Retirement Board (Board), comprised as follows:

- a. Four members serve in an ex-officio capacity by virtue of their constitutional office: the State Superintendent of Public Instruction (SPI); the State Controller; the State Treasurer; and the State Director of Finance;
- b. Two teacher representatives from grades K-12 who are appointed from a list of candidates recommended by the SPI;
- c. A retired member of STRS who is appointed from a list of candidates recommended by the SPI;
- d. A community college instructor who has expertise in the areas of business, economics, or both, appointed from a list submitted by the Board of Governors of the California Community Colleges;
- e. A member of the governing board of a school district or a community college district, who is appointed from a list of candidates recommended by the SPI.
- f. An insurance official (requires Senate confirmation);

- g. An officer of a bank or savings and loan institution, who has at least five years of broad professional investment experience (requires Senate confirmation);
- h. A person to serve as a public representative (requires Senate confirmation).

With the exception of the ex-officio members, all the remaining Board members are appointed by the Governor to serve four-year terms.

DISCUSSION

Specifically, AB-2768 would make the following changes:

- 1. Would require that the two K-12 active teacher members be elected from and by the active members of the Defined Benefit or participants of the Cash Balance Plan, commencing upon the expiration of the terms in existence on January 1, 1999. Would also eliminate the requirement that they be classroom teachers.
- 2. Would require that the retired member be elected by the retired members of the Defined Benefit Plan and the participants receiving an annuity under the Cash Balance Plan, commencing upon the expiration of the term in existence on January 1, 1999.
- 3. Would require that the community college instructor be elected by the active community college members of STRS, commencing upon the expiration of the term in existence on January 1, 1999 and would eliminate the requirement that he or she have expertise in business, economics, or both.
- 4. Would require that the school board member be appointed by the Governor from a list submitted by the State Superintendent of Public Instruction. Currently, the law is not specific regarding origination of a list from which the school board member is appointed.
- 5. Would eliminate the requirement that two of the Governor's appointees be insurance and banking officials and instead would simply require them to be representatives of the public.
- 6. Would adjust the 4-year term expiration dates of the members who would be elected so as to commence on January 1 and to expire on December 31 of the calendar year.
- 7. Provide that the Board member elections be conducted by, and pursuant to, regulations adopted by the Teachers' Retirement Board and that they be conducted in the most cost-effective manner deemed feasible.

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8. Would authorize the Board to establish a full-time position to implement the provisions of the bill and would require that all costs of elections be paid for by allocations from the Teachers' Retirement Fund as appropriated for that purpose in the annual Budget Act.

The provisions requiring an appropriation in the annual Budget Act are inconsistent with Proposition 162 and should be deleted from the bill. The Board has the authority to appropriate funds for positions without authorization in the Budget Act.

Staff have estimated that a <u>minimum</u> of twelve months would be required to complete the process for development and adoption of regulations. Therefore, the January 1, 1999, effective date may not provide adequate time to properly implement the provisions of this legislation.

Supporters of this legislation in the past have argued that elected Board members would be more responsive to the System's membership. Opponents have contended that such responsiveness is not necessarily good on a Board which controls the assets and benefit levels of a retirement system.

FISCAL IMPACT

Program - None

Administrative - Based on the Public Employees' Retirement System's experience with Board elections, STRS has estimated administrative costs of approximately \$614,296 per election cycle, or \$153,574 per year assuming that the 2 active member elections can be held at the same time. The annual costs would vary from year-to-year according to the Board position being filled.

RECOMMENDATION

None - Staff recommends that the Board not take a position on this bill which would be consistent with current Board policy, which states that the TRB does not take a position on legislation which concerns its composition.

Senate Bill 1486, Senator Rainey (Introduced 2/4/98)

Position: Support, if Amended (Staff Recommendation)

Proponents: Unknown

Opponents: None

SUMMARY

This bill would authorize a retired member to designate a spouse as his or her new option beneficiary under certain circumstances.

HISTORY

No prior legislation on this subject.

CURRENT PRACTICE

A retired member may change an option beneficiary upon the death of the beneficiary or the divorce of a spouse who is the designated option beneficiary. Any other event in the life of a retired member which would cause him or her to choose to change the option beneficiary designee is not permissible in statute.

DISCUSSION

There have been circumstances where unmarried members have selected a friend or relative as option beneficiaries, only to decide at some point in the future to get married. As the original option beneficiary is neither deceased nor a spouse from whom the member would obtain a divorce, under current law, the member is unable to provide an option beneficiary allowance to the new spouse. This bill would provide the member with the ability to change the option beneficiary from a friend or relative to a spouse.

The modified allowance that the retired member receives after electing an option is computed using both the age of the retired member and that of the option beneficiary. To make the change in option beneficiary cost neutral to the plan, the bill will need to be amended to specify that the modified allowance of the retired member will be actuarially adjusted to take into account the age of the new option beneficiary. Further amendments are necessary to allow for an application process and an effective date for the change as well as to place the new section in the correct chapter within the Education Code.

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The scope of this bill is narrow, it provides only for those retired members who chose an option allowance and selected someone other than a spouse as the option beneficiary and subsequently would like to provide for a spouse. It does not allow for a retired member who designated some one other than a spouse as an option beneficiary and would subsequently like to provide for a different option beneficiary other than a spouse. A retired member who did not choose an option at the time of retirement but has since married would not be allowed to select an option and designate the new spouse as the option beneficiary.

FISCAL IMPACT

Program - None, if the bill is amended as suggested.

Administrative - Minor and absorbable.

POSITION

Support, if amended - Staff recommends that the Board support SB-1486, if amended, since the bill would allow a retired member to designate a spouse as a new option beneficiary. This position would be consistent with the Board's policy to support legislation that improves the benefits and services to our members. Amendments, however, are necessary to provide for cost neutrality as well as ensure the correct implementation of the bill.

Senate Bill 1528, Senator Schiff (Introduced 2/10/98)

<u>Position:</u> Support, if Amended (Staff Recommendation)

Proponents: California Retired Teachers' Association

Opponents: Unknown

SUMMARY

SB-1528 would authorize STRS to offer health, vision, and dental insurance benefits to STRS members, beneficiaries, children, and dependent parents.

HISTORY

STRS members hired on and after April 1, 1986, are required by federal law to be covered by Medicare. Chapter 1006/89 (AB-265, Elder) was enacted to permit school districts to offer Medicare coverage to employees in STRS-covered positions who were hired prior to April 1986. The districts must file an application through the Public Employees' Retirement System (PERS) to modify the master state agreement for Medicare coverage.

Chapter 991/1985 (AB-528, Elder) requires STRS employers who provide health insurance to permit enrollment of STRS retirees in district health plans, under certain circumstances. However, the retirees may be placed in a separate "pool" from active members and may be required to pay the entire insurance premiums which are higher because of the experience ratings for their age group. And although school employers may contract with PERS under the Public Employees' Medical and Hospital Care Act (PEMHCA) for health benefits for school district employees, PERS requires that active and retired members be in the same pool. Efforts to cover only STRS retirees under PEMHCA have been unsuccessful because of the estimated adverse impact to the claims experience of the PEMHCA program.

There has been a succession of STRS health care related bills introduced over the years. SB-1528 is basically a reintroduction of SB-471/1995 (Dills) which failed passage from the Assembly policy committee. SB-192/1994 (Dills) did get to the Governor's desk but was vetoed.

CURRENT PRACTICE

There is no statewide health care program for STRS' active or retired members. Health care coverage varies greatly and is provided by school district employers on a district-by-district basis, as negotiated in agreements with employee bargaining For example, only a few districts offer vested representatives. health insurance benefits to retired STRS members. districts will make these benefits available, but only until the members reach the age of 65. Many districts provide neither contributions nor benefits to retired employees except to offer them coverage under Chapter 991/1985 (discussed under "History" section) in a separate pool at the full cost of the premiums. The health care issue for these members is further compounded because the majority of retired STRS members are not eligible for either Social Security or Medicare coverage.

The recently enacted federal Balanced Budget Act of 1997, effective January 1, 1998, allows certain retired members of a local or statewide governmental plan to qualify for relief from paying premiums for Medicare Part A coverage under specified conditions. To qualify, a member must have been hired before April 1986 and not have participated in Medicare as an active employee.

DISCUSSION

SB-1528 would authorize but not require STRS to offer or contract for health, vision, and dental insurance for active and retired members, beneficiaries, children, and dependent parents of members. The language in the bill is identical to SB-471/1995 and SB-1528 was introduced essentially as a spot bill pending further development by the sponsor.

In the Governor's veto message of SB-192/1992, he cited reasons why, in his opinion, STRS should not offer health care benefits. The following are staff's responses to these arguments:

1. STRS' primary responsibility is to provide "retirement program services to local school employees" and the administration of a health benefits program is unrelated to STRS' mission. In the past, the Department of Finance has also argued that health benefit issues are not related to STRS' mission.

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The lack of access to affordable health benefit coverage for many retired teachers in California is alarming. Staff has consistently presented testimony that the System views health benefits coverage as an integral part of a secure retirement. The System's commitment to "lifetime security and service" for the membership reflects this view that STRS must serve all members from the beginning of their careers through retirement. Because health care costs threaten members' economic security, it is in their best interests that the System pursue and identify more feasible health benefit options.

In addition, STRS' view of its role and responsibility to all its grants members is supported by federal law which retirement systems authority to provide health benefits for its retired members. Internal Revenue Code (IRC) section 401(h) provides that a governmental plan may provide retiree health benefits subject to the conditions and restrictions set forth in Basically, it requires that health benefits must be the section. subordinate to the retirement benefits administered. Furthermore, Section 401(h) allows plans to fund all or a portion of the retiree's health benefits with "excess" System assets. Many state retirement plans currently offer health benefit programs in this manner.

2. STRS members should be able to obtain health benefits either through their school employers or through the Public Employees Medical and Hospital Care Act program offered by PERS.

As previously stated, for retired STRS members to be covered under PERS, they would be required to be in the same pool as the other PEMHCA members. There have been numerous efforts to cover retirees under PEMHCA but these efforts have been unsuccessful because of the estimated adverse impact to the claims experience of the program.

SB-1528 is intended to provide STRS with the ability to implement a program determined to be the most feasible. For example, allowing employers to contract for health benefits for active STRS members only, retired members only, or both active and retired members. In addition, SB-1528 would allow retired members to contract directly on an individual basis if their former employer did not offer the benefit.

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Staff does not believe that STRS could establish a health benefit program for active employees that would be competitive with other providers. Therefore, staff recommends the bill be amended to remove active members from the proposed coverage. This change would be consistent with Section 401(h) of the IRC allowing governmental plans to administer a health benefit program as an ancillary benefit for its retirees.

Staff recommends that a comprehensive study be initiated to determine the best design for a STRS health benefits program and to identify all the issues involved in STRS' administration of such a program. A comprehensive study is estimated to cost \$200,000. The bill should be amended to include such an appropriation.

FISCAL IMPACT

SB-1528 would not result in any program costs because the health insurance could not be considered a vested benefit or part of the current plan benefit structure. The bill also specifies that the System must recover its administrative costs from the insurance premiums of those participating in the program.

Staff is requesting Board approval and \$200,000 to undertake a study to develop a comprehensive proposal for establishment of a health benefits program for retired STRS members.

RECOMMENDATION

Support, if amended - The Board has been consistent in its efforts to secure affordable health care coverage for retired members. Pending Board approval to conduct a comprehensive study, staff will continue to work with the sponsor in clarifying the intent of SB-1528 and also determining the appropriate amendments to the bill.

Senate Bill 1753, Senator Schiff (Introduced 2/18/98)

<u>Position</u>: Neutral, if Amended (Staff Recommendation)

Proponents: Senator Schiff - (Sponsor)

Opponents: Unknown

SUMMARY

The bill prescribes procedures for the consideration of specified financial matters involving vendors and contractors in closed sessions of the Teacher's Retirement Board (TRB) and the Public Employees' Retirement System (PERS) and the disclosure of gifts and campaign contributions. The bill also requires investment transaction disclosure within 12 months and prohibits specified Board member communications.

HISTORY

AB-3261 (Bradley, Chapter 575, Statutes of 1986)authorized the TRB to consider matters related to the appointment or removal of the Chief Executive Officer (CEO) of STRS in closed session.

AB-1284 (Chapter 177, Statutes of 1989) authorized the TRB and the PERS Board to meet in closed session to consider specified CEO and Chief Investment Officer (CIO) matters.

CURRENT PRACTICE

The TRB complies with the Bagley-Keene Open Meeting Act, which declares that deliberations and actions of state agencies be taken openly. Boards may, however, meet in closed session under specific circumstances (e.g. dismissal of an employee). The TRB also complies with provisions of the Political Reform Act which requires board members and key staff to file annual economic disclosure statements.

The TRB observes self-imposed conflict of interest policies, operates a roll call vote process and, in the coming year, will be addressing board contribution and gift disclosure requirements.

DISCUSSION

SB-1753 prohibits any matter involving any vendor or contractor from being considered during a closed session of the TRB on any transaction involving the retirement system unless, prior to the closed session, a written disclosure has been submitted of any campaign contribution of \$250 or more and any gift of \$50 that the vendor or contractor has made during the preceding calendar year to any Board member or officer or employee of the STRS. The bill also specifies that the vendor's or contractor's failure to disclose a contribution or gift is a basis for disqualification and requires the governing boards to make decisions involving any vendor or contractor by roll call vote, and enter vote results into the minutes of the closed meetings.

Additionally, the measure requires that investments be disclosed and reported at public meetings within 12 months of the close of an investment transaction, or the transfer of system assets, whichever occurs first. The measure also requires elected members and candidates for retirement boards to file semiannual campaign statements on board forms. SB-1753 specifies that the campaign statements, signed under penalty of perjury, must be filed with and retained by the respective executive officer and board as public records. Also, the bill authorizes the Secretary of State to audit and perform field investigations of the campaign statements.

Finally, the bill expands the prohibition against specified board member contacts, applicable to sole-source contracts, to all investment services, transactions, and products. SB-1753 requires any communication with a member of a board to be in writing and disclosed on the meeting record and provides that violations would provide the basis for disqualification. These disclosure requirements, however, are only applicable to the consideration of vendor and contractor matters in closed board sessions. As a slightly different method of providing this information, the TRB has considered revising the Request for Proposal (RFP) form to include the disclosure of gifts and contributions from vendors, contractors, and bidders to board members.

The Governance Committee of the TRB is currently considering a disclosure policy on political contributions and gifts which would exceed the provisions of this bill. This bill only requires disclosure for transactions which occur in closed session. The proposed policy would cover all transactions which exceed an economic threshold. This part of the bill is not problematic.

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Section 3 adds language to the Education Code which would specifically provide that no TRB member shall "knowingly communicate concerning any matter relating to the contract, the request for proposal or evaluation and selection with any contractor, applicant, or bidder." This section would apply to all investment services, transactions and products.

Communication from contractors, applicants, or bidders would be limited to written communication to the executive officer. This would apply to communication with all staff. This language would seem to impair the ability of staff to carry out basic due diligence on investment transactions. The author has indicated he is willing to consider language which would not impair due diligence efforts on the part of staff.

The current version of this bill goes well beyond the current "no contact" policy of the Board which pertains only to formal RFP processes.

FISCAL IMPACT

Program - None.

Administrative - No fiscal impact. Any additional administrative workload resulting from the requirements of the bill could be absorbed within existing resources.

POSITION

Support if Amended - Staff recommends that the Board support SB-1753, if amended, since the bill represents a codification of important conflict of interest policies and measures already implemented by the TRB. Staff recommends, however, that the bill be amended to specifically designate the party responsible for reporting board contributions and gifts and report verification. Lastly, the language relating to competitive bidding and Request for Proposals (RFPs) is overbroad and administratively burdensome and should be narrowed in scope.

Senate Bill 2224, Senator Lee (Introduced 2/20/98)

Position: Defer (Staff Recommendation)

Proponents: CRTA (Sponsor)

Opponents: Unknown

SUMMARY

This bill would provide for the return to an unmodified allowance for certain members who retired prior to 1991 under specified conditions. Funding for the bill would be provided from July 1, 1999 until June 30, 2017 from the School Lands Revenue.

HISTORY

SB-754 (Chapter 911/93) allowed STRS members who retired before January 1, 1991, under Option 2 or Option 3, to elect to change to Option 6 or Option 7 (added by SB 682 Chapter 97/90) during the period of July 1, 1994 through December 31, 1994. The retired member could change options only if the same option beneficiary was named, the option beneficiary was not deceased at the time of the change in options, and the option beneficiary had no known terminal illness. The retirement allowance payable to the retired member after an option change under this bill would be reduced from the current modified allowance.

SB-1658, 1996, was introduced to allow STRS members who retired under Options 2, 3, 4, or 5 before January 1, 1991 to return to the unmodified allowance amount if the option beneficiary had died before January 1,1995. SB-1658 was later amended to exclude Option 4 and 5 retired members from eligibility and, ultimately, the bill was amended to require a study to determine the cost and impact to STRS of providing this benefit.

CURRENT PRACTICE

A member who is retired under an option has his or her allowance modified in order to provide a continuing allowance to the specified option beneficiary. The factors used in the modification are determined by the option selected and the ages of the retired member and option beneficiary. Current statutes provide for six options, Options 2, 3, 4, 5, 6, & 7. Option 6 and Option 7, which were not available prior to January 1, 1991, allow for the retired members' allowance to return to the unmodified amount if the option beneficiary pre-deceases the retired member. Options 2, 3, 4 and 5 do not allow for the

retired members' allowance to return to the unmodified amount. The annual revenues deposited to the Teachers' Retirement Fund (TRF) pursuant to Section 6217.5 of the Public Resources Code are distributed annually, in conjunction with the proceeds of the Supplemental Benefit Maintenance Account (SBMA), in quarterly supplemental payments to provide purchasing power protection of up to 75 percent for those retired members who have seen the purchasing power of their allowances erode below that level.

DISCUSSION

This bill would return to the unmodified allowance of any retired member under all of the following:

- 1. the member retired prior to January 1, 1991, and,
- 2. the member selected Option 2, 3, 4, or 5, and,
- 3. the beneficiary of the member died prior to January 1, 1995, and
- 4. the member has not selected a new beneficiary, and,
- 5. the unmodified allowance is greater than the modified allowance plus the benefit adjustments and the quarterly supplemental payments the retired member is receiving.

There are approximately 2,509 members who would qualify to make this election and have their retirement allowances returned to the unmodified amount. Members who had retired prior to January 1, 1991 and whose option beneficiary was still living had the opportunity to make a similar election in 1994.

The General Fund transfers 2.5 percent of payroll annually to the SBMA to fund purchasing power protection. The revenue received pursuant to Section 6217.5 of the Public Resources Code, in conjunction with the proceeds of the SBMA, fund the 75 percent purchasing power protection provided by the Ruth Q. DePrida Pension Protection Act of 1997 (SB-1026, Update on Schiff/Chapter 939). If the revenue received pursuant to Section 6217.5 of the Public Resources Code is no longer available to fund purchasing power protection, the supplemental payments will be disbursed solely from the SBMA. The impact that will have on the long range forecast for funding supplemental payments at 75 percent is minimal as the revenue from the schools lands has averaged only \$3 million a year during the same period, 1989/90-1997/98, that the supplemental payments have averaged around \$175 million.

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FISCAL IMPACT

<u>Program</u> - The actuary has determined that it would cost approximately \$31,786,000, or .016 percent of payroll over the next 18 years, to provide this benefit. The revenue received from school lands, while not directly tied to payroll, was .0127 percent of payroll this past year, which would have been .0033 percent of payroll, or \$485 thousand, less than needed.

The annual revenues pursuant to Section 6217.5 of the Public Resources Code fluctuate from year to year. Since the inception of the program, 1984-85, they have ranged from a high of \$10,119,124 to a low of \$1,197,500, with an average over the 14 years of \$4,467,501. If the annual revenue exceeds annual benefit expense there will be no program cost, however, to the extent the revenue falls short of the annual benefit, there will be a program cost. The funding period provided in this bill could be extended, if needed, thereby alleviating any potential underfunding.

Administrative - Minor and absorbable.

POSITION

Defer - Staff recommends the Board defer action on this bill pending prioritization of all benefit bills.

STATE TEACHERS' RETIREMENT SYSTEM

LEGISLATIVE SUMMARY - REGULAR BOARD

1997-98 Regular Session - March 13, 1998

Attachment 14 Item7a/Board April 2, 1998

BILL NO. >>>> STATUS <<<<<<<<<<

CA AB 88 AUTHOR: Baca

TITLE: STRS: Rule of 85

AMENDED: 01/05/98 LOCATION: Senate PE&R

POSITION: *Support, if amended

SUMMARY: This bill would allow a member of STRS who is 55 years of age, or any older age specified by the Board, to retire on or after July 1, 1999 with full retirement benefits if the member's age, plus years of credited service, equals or exceeds 85.

COSTS: Program - None, paid by employer

Administrative - None, paid by employer

P - CTA (Sponsor), ACSA, BOG, CFT, CRTA, UTLA

O - Cal-Tax

CA AB 884 AUTHOR: Honda

TITLE: Compounded COLA

AMENDED: 03/02/98 LOCATION: Senate PE&R

POSITION: *Support, if amended

SUMMARY: Would amend the TRL to provide that beginning

September 1, 1999, the "2% improvement factor" applied to benefit payments

from the STRS Defined Benefit Plan shall be compounded.

COSTS: Program - 1.62% of payroll or \$227 million annually

(1996/97 payroll estimated \$14 billion) Administrative - one time cost of \$196,000

P - CFT (Sponsor), ACSA, BOG, CRTA, CTA, FACCC, UTLA

O - Cal-Tax, DOF

LEGISLATIVE SUMMARY - REGULAR BOARD

1997-98 Regular Session - March 13, 1998

Attachment 14 Item7a/Board April 2, 1998

BILL NO. >>>> STATUS <<<<<<<<<

CA AB 1102 AUTHOR: Knox

TITLE: Unused Sick Leave Service Credit

AMENDED: 01/28/98 LOCATION: Senate PE&R

POSITION: *Support, if amended

SUMMARY: Would: 1) extend eligibility to receive credit at retirement for unused sick leave to members of STRS Defined Benefit Plan who became members on and after July 1, 1980, and who retire on or after January 1, 1999; and 2) eliminate the restriction that currently prohibits a STRS member who reinstates from service retirement from receiving credit at a subsequent retirement for unused sick leave accrued after termination of the original retirement.

COST: Program - .38% of payroll or \$53.2 million annually

Administrative - Minor, absorbable

P - CTA (Sponsor), ACSA, BOG, CFT, CRTA, CSEA, FACCC, PERS, UTLA

O - Unknown

CA AB 1166 AUTHOR: House

TITLE: Minimum Standards for Community College Counselors and

Librarians, Part Time and Adult Ed

AMENDED: 01/27/98 LOCATION: Senate PE&R POSITION: *Co-sponsor

SUMMARY: This bill would establish a minimum standard of 175 days or 1,050 hours for full-time service and compensation for California community college counselors and librarians. It also clarifies the full-time service for adult education programs as well as part-time credit and non-credit and adult education community college instructors. The bill would also make numerous technical amendments to Public Employees' Retirement System (PERS) law which this analysis does not address.

COST: Program - None

Administrative - Minor, absorbable.

P - PERS, STRS (Co-sponsors)

O - None

LEGISLATIVE SUMMARY - REGULAR BOARD

1997-98 Regular Session - March 13, 1998

Attachment 14 Item7a/Board April 2, 1998

BILL NO. >>>> STATUS <<<<<<<<<<

CA AB 1679 AUTHOR: Perata

TITLE: Tobacco Investments LOCATION: Assembly PER & SS

SUMMARY: Would: 1) prohibit new or additional investments of State Trust funds in tobacco companies on and after January 1, 1999; and 2) require phased divestment of one-third of current holdings each year beginning January 1, 2000, and continuing until January 1, 2002. The bill provides for indemnification for Board members and their agents and employees.

COST: Program - Unknown

Administrative - Unknown

P - Author (Sponsor)

O - PERS

CA AB 1744 AUTHOR: Knox

TITLE: Tobacco Investments LOCATION: Assembly PER & SS

SUMMARY: This bill would: 1) prohibit new or additional investments by the State Teachers' Retirement Fund and the Public Employees' Retirement Fund in tobacco companies on and after January 1, 1999; and 2) require phased divestment of one-third of current holdings each year beginning January 1, 2000, and continuing until January 1, 2002. The bill provides for indemnification for Board members and their agents and employees.

COST: Program - Unknown

Administrative - Unknown

P - Author (Sponsor), AFSCME, California Firefighters Association,

O - PERS

LEGISLATIVE SUMMARY - REGULAR BOARD

1997-98 Regular Session - March 13, 1998

Attachment 14 Item7a/Board April 2, 1998

BILL NO. >>>> STATUS <<<<<<<<<<

CA AB 2357 AUTHOR: Olberg

TITLE: Music Company Investments

LOCATION: Assembly

SUMMARY: Requires the phased divestment of state trust money investments total by January 1, 2005, in business firms that promote musical works that encourage specified acts, including degradation of females.

COST: Program - Unknown

Administrative - Undetermined, substantial costs relating to initial

identification and sales in divestiture, and monitoring.

P - Author (Sponsor)

O - Unknown

CA AB 2616 AUTHOR: Prenter

TITLE: Increased Age Factor

LOCATION: Assembly

POSITION: Support, if amended (Staff Recommendation).

SUMMARY: AB-2616 would incrementally increase the benefit factor of 2% at age 60 to 2.5% at age 70.

COST: Program - A total contribution rate increase of 1.275% amortized

over 30 years.

Administrative - Approximately \$158,195, for one-time

administrative implementation costs. START Project costs are

undetermined at this time.

P - CTA (Sponsor)

O - Unknown

LEGISLATIVE SUMMARY - REGULAR BOARD

1997-98 Regular Session - March 13, 1998

Attachment 14 Item7a/Board April 2, 1998

BILL NO. >>>> STATUS <<<<<<<<<

CA AB 2765 AUTHOR: Committee on PER&SS

TITLE: STRS Technical Housekeeping

LOCATION: Assembly POSITION: *Sponsor

SUMMARY: Would make various technical and conforming changes to the TRL.

COST: Program - None

Administrative - None

P - STRS (Sponsor) O - None Known

CA AB 2766 AUTHOR: PER&SS

TITLE: Final Comp for LAUSD & Return to Uncodified

LOCATION: Assembly

POSITION: Oppose (Staff Recommendation)

SUMMARY: Would 1) add a definition of final compensation for specified LAUSD members and if that new definition results in a higher benefit funding would be provided by LAUSD and 2) provide for the return to an unmodified allowance for certain members who retired prior to 1991 under specified conditions. Funding for the return to the unmodified allowance would be provided from July 1, 1999 until June 30, 2017 from the School Lands Revenue.

COST: Program - None for the final compensation portion of the bill,

because LAUSD would be required to pay the actuarial present value of any benefit increase. Unknown on the return to

unmodified portion.

Administrative - Significant, approximately \$500,000 for implementation of the LAUSD final compensation proposal.

P - ACSA, CRTA (Co-sponsors)

O - Unknown

LEGISLATIVE SUMMARY - REGULAR BOARD

1997-98 Regular Session - March 13, 1998

Attachment 14 Item7a/Board April 2, 1998

BILL NO. >>>> STATUS <<<<<<<<<<

CA AB 2768 AUTHOR: PER&SS

TITLE: Board Elections

LOCATION: Assembly

POSITION: No Position (Staff Recommendation)

SUMMARY: This bill would require that the four "teacher" members of the Teachers' Retirement Board be elected to the Board from their respective constituencies rather than apporinted by the Governor.

COST: Program - None

Administrative - \$614,296 per election, or \$153,574 per year. Annual costs would vary according to the Board composition under

election.

P - CFT (Sponsor)

O - Unknown

CA SB 610 AUTHOR: O'Connell

TITLE: Reciprocity for 37 Act Counties

AMENDED: 01/07/98

LOCATION: Assembly PER & SS POSITION: *Support, if amended

SUMMARY: Would extend reciprocal rights and limitations, which are applicable to members of PERS, to members of '37 Act Counties retirement system who are also members of the State Teachers' Retirement System Defined Benefit Plan.

COSTS: Program - None

Administration - Minor

P - SEIU (Sponsor), AFSCME, STRS

O - DOF

LEGISLATIVE SUMMARY - REGULAR BOARD

1997-98 Regular Session - March 13, 1998

Attachment 14 Item7a/Board April 2, 1998

BILL NO. >>>> STATUS <<<<<<<<<

CA SB 1021 AUTHOR: Committee on PE&R

TITLE: Federal Compliance

AMENDED: 01/16/98

LOCATION: Assembly PER & SS

POSITION: *Co-sponsor

SUMMARY: Would amend the TRL to bring STRS into compliance with federal changes applicable to the STRS Defined Benefit Plan enacted by Congress under the Pension Simplification Act.

COSTS: Program - Unknown

Administrative - Unknown

P - PERS, STRS, and 37 Act Counties (Co-sponsors), AFSCME

O - Unknown

CA SB 1433 AUTHOR: Hayden

TITLE: Tobacco Investments

LOCATION: Senate PE&R

SUMMARY: This bill would: 1) prohibit new or additional investments by the State Teachers' Retirement Fund and the Public Employees' Retirement Fund in tobacco companies on and after January 1, 1999; and 2) require phased divestment of current holdings each year beginning January 1, 1999, and continuing until January 1, 2003.

COST: Program - Unknown

Administrative - Unknown

P - Author (Sponsor), AFSCME, American Cancer Society, American Heart Association, California Firefighters Association, California Public Interest Research Group

O - Cal-Tax, PERS

LEGISLATIVE SUMMARY - REGULAR BOARD

1997-98 Regular Session - March 13, 1998

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BILL NO. >>>> STATUS <<<<<<<<<<

CA SB 1486 AUTHOR: Rainey

TITLE: New Option Beneficiary

LOCATION: Senate PE & R

POSITION: Support, if amended (Staff Recommendation)

SUMMARY: Would under specified circumstances, authorize a retired member to designate a spouse as his or her new option beneficiary.

COST: Program - None if bill is amended as suggested

Administrative - Minor and absorbable

P - Author (Sponsor)

O - Unknown

CA SB 1528 AUTHOR: Schiff

TITLE: Health Insurance for STRS Members

LOCATION: Senate PE & R

POSITION: Support, if amended (Staff Recommendation)

SUMMARY: Would authorize the Teachers' Retirement Board to contract for health insurance, including vision and dental care, for STRS members, beneficiaries, children, and dependent parents.

COST: Program - None

Administrative - None. Once operational, the program will be member-funded. However, start-up costs would be needed and

not provided in the bill.

P - CRTA (Sponsor)

O - Unknown

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LEGISLATIVE SUMMARY - REGULAR BOARD

1997-98 Regular Session - March 13, 1998

Attachment 14 Item7a/Board April 2, 1998

BILL NO. >>>> STATUS <<<<<<<<<<

CA SB 1753 AUTHOR: Schiff

TITLE: Board Investment Decisions

LOCATION: Senate

POSITION: Support, if amended (Staff Reccomentation)

SUMMARY: The bill prescribes procedures for the consideration of specified financial matters involving vendors and contractors in closed sessions of the TRB and the Public Employees' Retirement System and the disclosure of gifts and campaign contributions. Requires investment transaction disclosure within 12 months and prohibits specified board member communications.

COST: Program - None.

Administrative - No fiscal impact.

P - Author (Sponsor)

O - Unknown

CA SB 1945 AUTHOR: Karnette

TITLE: STRS Home Loan Program

LOCATION: Senate PE & R

POSITION: Support (Staff Recommendation)

SUMMARY: Establishes a 100% financing member home loan program.

Loans are not to exceed \$350,000.

COST: Program - No fiscal impact.

Administrative - None. Member-funded.

P - Author (Sponsor)

O -Unknown

LEGISLATIVE SUMMARY - REGULAR BOARD

1997-98 Regular Session - March 13, 1998

Attachment 14 Item7a/Board April 2, 1998

BILL NO. >>>> STATUS <<<<<<<<<<

CA SB 2047 AUTHOR: Lewis

TITLE: Change in Option

LOCATION: Senate POSITION: *Sponsor

SUMMARY: Would: 1) provide Option 8 allowing a member to select more than one option beneficiary, 2) provide for a change from Option 4 or 5 to Option 6 or 7 under specified circumstances, and 3) provide members upon retirement under an option with the greater of the benefit determined under the option factors in place at the time of retirement or in place at the time of election of a preretirement election of an option.

COST: Program - None

Administrative - Unknown

P - STRS (Sponsor)

O - Unknown

CA SB 2085 AUTHOR: Burton

TITLE: CB Plan Changes LOCATION: Senate PE & R POSITION: *Sponsor

SUMMARY: Makes technical, nonsubstantive changes to the CB Plan.

COST: Program - No fiscal impact.

Administrative - None.

P - STRS (Sponsor)

O- Unknown

LEGISLATIVE SUMMARY - REGULAR BOARD

1997-98 Regular Session - March 13, 1998

Attachment 14 Item7a/Board April 2, 1998

BILL NO. >>>> STATUS <<<<<<<<<

CA SB 2105 AUTHOR: McPherson

TITLE: State Parks: Wilder Ranch

LOCATION: Senate Natural Resources and Wildlife Committee

SUMMARY: Wilder Ranch State Park, currently held in trust by the State Land Commission on the Declares the legislative intent to enact legislation in regards to the development of the behalf of the California State Teachers' Retirement Fund. Such legislation would include the transfer of Scaroni Ranch to the state park system, appropriation of improvement funds for the Ranch, provisions to extinguish campground plans and provide incentive funding to work with the Central Coast Council, and for watershed restoration.

COST: Program - Unknown

Administrative - Unknown

P - Unknown O- Unknown

CA SB 2126 AUTHOR: Committee on PE&R

TITLE: SB-1027 Follow-up Bill

LOCATION: Senate PE & R POSITION: *Sponsor

SUMMARY: Would 1) Allow STRS members to take up to 120 months to pay for permissive services purchases; 2) allow purchased out-of-state service credit to count toward vesting; and, 3) authorize the purchase of nonqualified service.

COST: Program - Unknown

Administrative - Unknown

P -STRS (Sponsor)

O- Unknown

LEGISLATIVE SUMMARY - REGULAR BOARD

1997-98 Regular Session - March 13, 1998

Attachment 14 Item7a/Board April 2, 1998

BILL NO. >>>> STATUS <<<<<<<<<<

CA SB 2224 AUTHOR: Lee

TITLE: Return to Unmodified

LOCATION: Senate PE & R

POSITION: Defer (Staff Recommendation)

SUMMARY: Would provide for the return to an unmodified allowance for certain members who retired prior to 1991 under specified conditions. Funding for the bill would be provided from July 1, 1999 until June 30, 2017 from the State Lands Revenue.

COST: Program - The cost of the benefit is 0.016% of payroll amortized

over 18 years. To the extent that revenue received from state lands is less than the cost of the benefit, there would be a cost to the

fund. Administrative - Minimal and absorbable

P - CRTA (Sponsor)

O- Unknown

LEGENDOF ABBREVIATIONS

P = PROPONENTS O = OPPONENTS

ABBREVIATION ORGANIZATION

AALA Associated Administrators of Los Angeles

ACCCA Association of California Community College Administrators

ACSA Association of California School Administrators

AFT American Federation of Teachers
AGENCY State and Consumer Services Agency
ART Association of Retired Teachers

BOE Board of Equalization

BOG Board of Governors, California Community Colleges

Cal-Tax California Taxpayers Association

CASBO California Association of School Business Officers

CCA Community College Association
CCAE California Council for Adult Education

CFA California Faculty Association
CFT California Federation of Teachers
CRTA California Retired Teachers Association
CSBA California School Boards Association
CSEA California School Employees Association

CSL California Senior Legislature
CSU California State University
CTA California Teachers Association

DOE Department of Education
DOF Department of Finance

DGS Department of General Services

DPA Department of Personnel Administration

FACCC Faculty Association of California Community Colleges

FTB Franchise Tax Board

LAUSD Los Angeles Unified School District
PARS Public Agency Retirement System
PERS Public Employees Retirement System
RPEA Retired Public Employees Association

SACRS State Association of County Retirement Systems
SBMA Supplemental Benefit Maintenance Account
SDCOE San Diego County Office of Education
SEIU Service Employees International Union

SLC State Lands Commission
SSC School Services of California
SSDA Small School Districts' Association
STRS State Teachers' Retirement System

TFD Teachers for Fair Disability
TRB Teachers' Retirement Board
TRF Teachers' Retirement Fund
TRL Teachers' Retirement Law

USERRA Uniformed Services Employment and Reemployment Rights Act

UTLA United Teachers Los Angeles

STANDING COMMITTEES OF THE ASSEMBLY/SENATE

Assembly PER&SS Assembly Public Employees Retirement and Social Security

Senate PE&R Senate Public Employment and Retirement